MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T1, 2018/2019

BAM7014 –ACCOUNTING FOR MANAGERS

(MBA Full Time)

26 SEPTEMBER 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **SIX (6)** pages including cover page with **4** questions only.

2. All questions carry equal marks and distribution of marks for each question is given.

3. Please write all your answers in the **Answer Booklet** provided.

QUESTION 1 (25 marks)

PART A

Since last decade, many companies in Malaysia have applied Activity-Based Costing. Selangor Consumer Appliance Bhd has also applied ABC. The company makes two main consumer appliances products: high quality washing soaps and sanitizer. The production manager reported that during June 2018, 64,000 containers of washing soap and 48,000 containers of sanitizer were produced. In this production, a total of RM272,000 overhead costs were incurred. Additional information on overhead cost were also reported:

Activity	Cost Driver	Total Cost in RM
Quality inspections	Number of inspections	120,000
Materials handling	Number of requisitions	56,000
Machine setups	Number of setups	96,000

The cost driver volume for each product was as follows:

Cost Driver	Washing Soap	Sanitizer	Total
No. of inspections	720	1,280	2,000
No. of requisitions	200	120	320
No. of setups	96	104	200

Required:

a. Compute the overhead rate for each activity.

(6 marks)

b. Assign the manufacturing overhead cost for June 2018 to the two products using Activity-based Costing (ABC) and determine the overhead cost per unit.

(9 marks)

c. In which situations, it is appropriate to use ABC by a manufacturing company?

(6 marks)

PART B

Discuss with an example, margin of safety and how is it computed?

(4 marks)

(Total marks 25)

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QUESTION 2 (25 marks)

Asian Leather Manufacturing Bhd is engaged in the production of leather products since 1992. As there has been a rising demand for leather products particularly from European countries, the company is likely to double its operating capacity in near future. The recently appointed Costing

Manager has some difficulties in preparing the related financial statements due to her confusion in distinguishing between manufacturing costs and operating costs. The company has supplied the following information from its accounting records for the month of September 2018.

Cost information	RM	Cost information	RM
Advertising	6,400	Factory insurance	2,800
Raw materials purchased	120,000	Commission paid	20,000
Supplies used	5,400	Materials handling	30,000
Opening materials inventory	27,800	Factory supervision	17,800
Closing materials inventory	76,000	Opening finished goods inventory	53,480
Opening work-in-progress inventory	100,000	Closing finished goods inventory	34,000
Closing work-in-progress inventory	114,000	Direct labor cost	84,000

Required:

a) Prepare a statement of cost of goods manufactured.

(10 marks)

b) Prepare a statement of cost of goods sold.

(3 marks)

c) Included in the cost of good manufactured are the manufacturing costs. Explain the three categories of manufacturing costs.

(6 marks)

d) With an example, distinguish between a product cost and period cost.

(6 marks)

(Total marks 25)

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QUESTION 3 (25 marks)

KL International Bhd is a manufacturing company which was established in 2002. Currently, the company employs about 400 workers. The company manufactures a branded single product with the following unit costs for 10,000 units:

Direct materials	RM120
Direct labor	60
Factory overhead (40% variable)	180
Administrative expenses (20% variable)	30
Selling expenses (60% variable)	60
Per unit cost	RM450

KL International Bhd sells its branded product to dealers for RM825. Recently, the company was approached by Ropen Yam Company about buying 2,000 units for RM450. The production manager of KL International Bhd told the management that the company has sufficient capacity to produce the extra 2,000 units. No additional selling expenses would be incurred on the special order.

The management of the company has sought your help in suggesting to the company what should they do in this regard?

Required:

a. Compute the profit KL International Bhd earned on the original 10,000 units?

(3 marks)

b. Should KL International Bhd accept the special order if its goal is to maximize short-term profit? How much will income be affected?

(6 marks)

c. Determine the minimum price KL International Bhd would want to receive in order to increase profits by RM15,00 on the special order?

(8 marks)

d. When making a special-order decision, what qualitative aspects of the decision should the company consider? Discuss them.

(8 marks)

(Total marks 25)

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QUESTION 4 (25 marks)

PART A

Jarokho Selangor Malaysia operates on a calendrer –year basis. The company begins the annual budgeting process in late August when the CFO establishes targets for the total dollar sales and net income before taxes for the next year.

The sales target is given first to the marketing department. The marketing manager formulates a sales budget by product line in both units and dollars. From this budget, sales quotas by product line in units and dollars are established for each of the company's sales districts. The marketing manager also estimates the cost of the marketing activities required to support the target sales volume and prepares a tentative marketing expense budget

The executive Vice President uses the sales and profit targets, the sales budget by product line, and the tentative market expense budget to determine the dollar amounts that can be devoted to manufacturing and corporate office expense. The executive vice president prepares the budget for corporate expenses. She then forwards to the production department the product –line sales budget in units and the total dollar amount that can be devoted to manufacturing.

The product manager meets with the factory managers to develop to develop a manufacturing plan that will produce the required units when needed within the costs constraints set by executive vice president. The budgeting process usually comes to a halt at this point because the production department does not consider the financial resources allocated to be adequate.

When this standstill occurs, the vice president finance, the executive vice president, the marketing manager, and the production manager meets together to determine the final budgets for each of the areas. The normally results in a modest increase in the total amount available for manufacturing costs and cuts in marketing expenses and corporate office expense budgets. The total sales and net income figures proposed by the CEO are seldom changed. Although the participants are seldom pleased with the compromise, these budget are final. Each executive then develops a new detailed budget for the operations in his or her area.

None of the areas has achieved its budget in recent years. Sales often run below the target. When budgeted sales are not achieved, each area is expected to cut costs so that the CEO's profit target can be met. However, the profit target is seldom met because costs are not cut enough. In fact, costs often run above the original budget in all functional areas (marketing, production, and corporate office).

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The CEO is disturbed that the company has not been able to meet the sales and profit targets. He hired a consultant with considerable experience with companies in Palmer industry. The consultant reviewed the budgets for the past four years. He concluded that the product line sales budgets were reasonable and that the cost and expense budgets were adequate for the budgeted sales and production levels.

Required:

a. Discuss how the budgeting process employed by the company contributes to the failure to achieve the CEO's sales and profit targets.

(10 marks)

b. Suggest how this company's budgeting process could be revised to correct the problems.

(7 marks)

PART B

Joshi International Company is in manufacturing operations for last sixteen years. It produces eight chemical based products, which are used by consumer goods companies as raw materials. Joshi International is planning to produce 2,500 units of product in 2017. Each unit requires 3 pounds of materials at RM6 per pound and a half hour of labor at RM16 per hour. The overhead rate is 75% of direct labor.

Required:

a. Compute the budgeted amounts for 2017 for direct materials to be used, direct labor, and applied overhead.

(4 marks)

b. Compute the standard cost of one unit of product.

(4 marks)

(Total marks 25)

End of Paper